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PASS TO DEPUTY UNDER SECRETARY FOR FNS - KATE HOUSTON
USDA FOR FAS/OA/OSTA/OCRA/ONA/OGA/OTP/OCBD/OAO/OFSO

E.O. 12958: N/A

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SUBJECT: AMBASSADOR TOURS KRAFT FOODS ARGENTINA AND ARGENTINE FOOD BANK

11. (SBU) Ambassador visited the Kraft Foods Argentina plant in General Pacheco, Kraft's second largest cookie plant in the world. Kraft highlighted their strong commitment to their Corporate Social Responsibility Programs. They also discussed the direct role that the union plays in their operations, which at times is difficult to manage as it has increasingly become influenced by a "new" class. Company officials also spoke at length on the current energy crisis, price controls, labor costs and inflation, which combined make future investments a difficult sell. Following the visit, the Ambassador traveled to the Argentine Food Bank where he toured the facility, met with US company volunteers packing boxes for delivery and recognized the Bank's critical role in reducing hunger in Argentina.

KRAFT FOODS ARGENTINE

12. (U) Ambassador visited Kraft Foods Argentina located in General Pacheco, Kraft's second largest cookie plant in the world. He was received by Kraft's General Director, Alberto Pizzi, who escorted him on a tour of the plant. Kraft Foods currently has 3,500 employees and 3 processing plants located in General Pacheco and Tres Arroyos (Province of Buenos Aires), and Villa Mercedes (Province of San Luis). Specifically, at the General Pacheco plant they produce cookies, crackers, dry pasta, and confectionary products. Kraft's major competitor for cookies is Argentine company Arcor, especially given their joint venture relationship with Danone/Bagley. Kraft recently acquired Danone worldwide, but this did not extend to situations in which Danone/Bagley was already involved in a joint venture. Following the tour, Kraft executives spoke at length with Ambassador.

Corporate Social Responsibility (CSR)

13. (SBU) Kraft spoke in detail on their CSR Programs in which their main objective is to improve nutrition and food education in Argentina. The company has implemented several impressive programs that were recently highlighted in ACE Award Cable (Reftel 01184). To name a few, Kraft's "Merendar" program, in partnership with the Food Bank, distributes nutritional kits to undernourished children from primary and kindergarten schools. Since October 2002, 300 tons of food have been distributed to 2,500 children on a daily basis. The company's "Eating for a Better Life" program, in partnership with the Center of Studies of Infantile Nutrition, the Food Bank, and the Uruguayan Association of Nutritionists, has helped improve the nutritional knowledge of managers who direct community soup kitchens and other organizations. To date, the program has directly benefited 600 people and, indirectly, over 40,000 people. During 2006, Kraft made "in-kind donations" of over 300 tons of food

products to more than 300 organizations around the country through the Food Bank distribution network. The company participates in many other CSR programs.

FAT GUYS BEING REPLACED BY YOUNG GUYS

14. (SBU) Kraft directors explained that since the current Administration belongs to the traditional Peronist party, the Labor Ministry does not interfere with union actions until they become egregious. Under this scenario, the oldest union leaders, or "Fat Guys" (as a majority reportedly became rich due to lucrative "transactions") have been losing prestige while the younger leaders are becoming more powerful, and keep trying to demonstrate their ability to deliver benefits by labor actions. Kraft commented that the young turks' power is often marked by their ability to stop business, rather than negotiate. The more aggressive they show themselves, the more notorious they become. Company Representatives also remarked that nepotism is prevalent in Argentine unions, with union bosses often passing power to their kin without debate, which fuels resentment among rank and file.

15. (SBU) Kraft clarified that their current relationship with the union is relatively good as they have decent relationships with union leaders. In fact, Kraft recently negotiated their annual union agreement, which was not marked by the aforementioned activity. This agreement is annual and is conducted with their local union under the blessing of the National Union and Ministry of Labor. Company Officials stated that without the current Minister of Labor's willingness to intervene, these negotiations could easily drag on and on.

Energy Crisis: Squeeze Me But Don't Kill Me

15. (SBU) Kraft explained that the current Energy crisis has indeed impacted their ability to operate without disruption, especially given the fact that the plant operates on natural gas. At the GOA's request, Kraft receives last minute calls, never written instructions, often times with only a day's notice, "asking" them to reduce their consumption of natural gas by 40-50 percent. This is particularly difficult as the Argentine food industry is booming and demand is extremely high. In order to comply with these requests and keep favor with the GOA, Kraft is forced to shut down two or three lines of production, thereby decreasing output. Kraft stated that they do not feel as though they are being singled out due to their U.S. ownership.

16. (SBU) The company commented that in their opinion, the GOA's explanation that the crisis was due to extremely cold weather and booming industry production had little merit. Kraft also highlighted the fact that the price for gas is much cheaper in the city of Buenos Aires than in the provinces which are typically poorer, thus affecting the poor more directly. They noted that the price for bottled natural gas which the poor use to fuel their home appliances has gone up from 25 to 40 pesos a week, while those who have gas pipes supplying their homes get continued low prices.

PRICE CONTROLS - - LOST TECHNOLOGY

17. (SBU) The GOA has pressed Kraft on price controls, enacted in an effort to reduce inflation, but the company stated they have a good personal relationship with the officer in charge of implementing this measure. Kraft explained that this can be a very difficult process as they are encouraged to provide their costs to the GOA in order to "justify" their pricing. However, as a public company, they do not share their costs with GOA Officials due to the fear that these will be released and used by competitors. Kraft Directors did not express major concern over this issue but did explain that if margins are kept low and the exchange rate vis-a-vis the U.S. dollar remains high, attracting additional investment will be difficult. This places Kraft in a very difficult position to acquire corporate funding for new, in-country investments.

¶18. (SBU) To this end, Kraft further explained that decreased margins have led to a decrease in the ability to secure additional investments. In turn, this impedes Kraft's ability to purchase necessary, modern equipment. With time, this is a major concern as technology will be lost, oddly at a time when the economy is rapidly growing. In their opinion, the current price controls are much worse than the two that were enacted in the past as real inflation is underreported.

Rising Labor & Insurance Costs

¶19. (SBU) Kraft Officials commented that increased labor costs, coupled with price controls and a sharp rise in the price of raw materials, are impacting the company's bottom line. The strength of the unions has forced a majority of Argentine companies to adjust salaries upward on a frequent basis. For example, Kraft's labor costs used to account for 10 percent of their total cost, as compared to now in which it accounts for 25 percent! This has made it difficult for companies like Kraft to avoid lay-offs.

¶10. (SBU) All companies established in Argentina must offer an insurance policy to protect their employees against any physical or mental injury while at work, otherwise known as Work Risk Management policy (ART). Currently, an employee who is injured at work receives his/her ART insurance money. In addition, they are allowed by law to sue their employer for additional money. Insurance rates have risen sharply over the past few years, which have placed a much heavy burden on companies, especially for middle-size companies. Kraft stated that they are very concerned with rising salaries and increased insurance costs, especially in light of the current economic situation.

Reducing Argentine Hunger

¶11. (U) Following the visit with Kraft Foods, Ambassador proceeded to the Argentine Food Bank Network, headquartered in San Martin, Buenos Aires, for a tour of the facility and discussion with their Executives. Kraft is its largest contributor of foodstuffs and has been working with the Food Bank for almost 5 years. The Argentine Food Bank Network is a non-profit organization composed of 14 Food

Banks throughout the country. The network has been in existence since 2003. It was created to coordinate the work between the individual Food Banks in order to strengthen their potential to reduce hunger and improve the nutritional situation in Argentina in the wake of the economic crisis of 2001/2002. The Food Bank in Buenos Aires has 400 volunteers and 12 permanent staff members. It is the largest bank in the network and distributes roughly half the food contributed. In 2006, the network distributed 4.3 million kg of food among 900 institutions that feed 130,000 people. In June 2007, the network had a record month for food distributions and is continually outpacing its previous levels.

Ambassador Assists Accenture Volunteers

¶12. (U) The Ambassador was introduced to the Food Bank's permanent staff and was then given a walking tour of the warehouse, followed by a discussion with the Executive Staff in their office. The Ambassador observed volunteers from Accenture, a global U.S. management consulting company based in Chicago, packing several boxes of foodstuffs. Accenture encourages its personnel to volunteer once per month to help in the packing process for food shipments.

Embassy Donates Copier to Food bank

¶13. (U) During the discussion, the Ambassador recognized the critical role of the Food Bank in reducing hunger in Argentina, congratulated them on their efforts and encouraged them to continue building public and private partnerships. In addition, Ambassador

announced the donation of an Embassy copier to the Food Bank as well as offered Embassy support to the Food Bank's efforts whenever possible. The Ambassador then engaged them on the organization's priorities and challenges.

Political Support

¶14. (U) Food Bank Officials explained that one of the principal challenges they encounter is to gain political support for the enactment of a "Good Samaritan Law", similar to the U.S. (i.e., "The Bill Emerson Good Samaritan Food Donation Act of 1996", which provides liability protection to organizations that donate food to non-profit organizations and protects them from civil and criminal liability should the donated product later cause harm to the needy).

A new bill is being sponsored by Senator Maria Laura Leguizamon (Buenos Aires) but this bill needs to receive the support of the "Casa Rosada" before it can move forward. With such legislation in place, the Food Bank would receive many more donations from corporations, both national and multinational.

Comment

¶15. (SBU) Kraft explained that overall, the company is doing well but highlighted their concerns for continued growth due to high inflation, price controls, energy shortages and labor costs. Embassy personnel have heard similar concerns from several other U.S. companies in various industry sectors. Kraft continues to plan more CSR initiatives like their major work with the Food Bank. The Argentine Food Bank continues to seek assistance and new methods for increasing donations in hopes of ending hunger in Argentina. The Embassy, especially through the efforts of Foreign Agricultural Service, will work with them on such initiatives.

Wayne